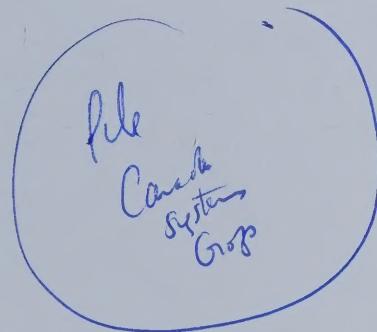


annual report 1979



Canada Systems Group



president's message

Despite the generally unfavourable economy, growth in the computer services industry in 1979 again topped 20%, demonstrating, as it has throughout the Seventies, the industry's ability to out-perform the economy as a whole.

It was a landmark year for CSG, one in which the company laid the groundwork for a decade of continued growth and expansion.

CSG ended the year as the country's leading computer services organization, having increased annual revenues by 84% over 1978, to a level more than eight times that of the first year of operation in 1972. Profits, too, continued to show healthy improvement, having increased by 26% over the previous year.

A key element in the company's growth strategy during 1979 was the acquisition of the Multiple Access Computer Group. Multiple Access is a recognized leader in the scientific and engineering communities, providing many high quality value-added services through its Don Mills and Los Angeles Data Centres, and through divisions which are known in the marketplace as Comserve, Keydata Canada and Multiple Financial Services. These services are complementary to, and form an excellent corporate mix with, those offered by CSG.

The enlarged company, now employing more than 1,200, is well positioned to provide an expanded level of services and geographic coverage from nine Canadian and four U.S. locations.

This coverage will be further broadened through the opening of a Western Region Data Centre in Calgary early in 1980 – part of a significant expansion of the company's presence in Western Canada. With the establishment of the new data centre and through locations in Winnipeg, Edmonton and Vancouver, CSG will be more effectively positioned to serve the growing Western market-place.

During the year, the company continued to strengthen its reputation as Canada's foremost supplier of reliable, cost-effective computing services, as evidenced by a number of significant new contracts. Notable among these was a contract with a major financial institution, valued at \$19 million over a five and a half year period – one of the largest processing contracts ever signed in Canada.

Facilities and equipment continued to be upgraded and a number of new software offerings were added, particularly in the areas of data base management systems and interactive services. The addition of an IBM 3033 processor at the Mississauga

Data Centre and the installation of an ITEL computer in the Los Angeles Centre were just two of the many enhancements undertaken during the year.

Staff continued to be the principal strength in what remains a very capital intensive, but largely people dependent industry.

It is a pleasure to acknowledge the skill and dedication with which the staff responded to the many challenges and to extend a special welcome to those who became part of CSG during the year.

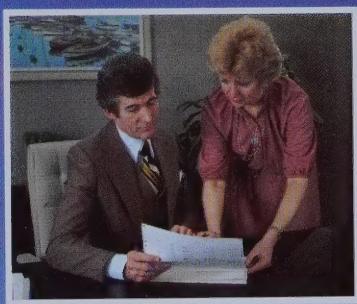
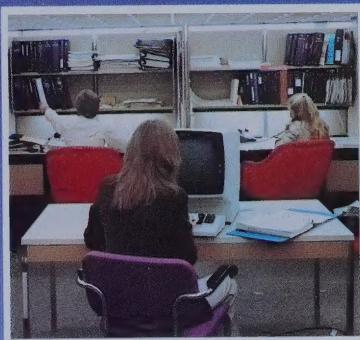
Looking ahead to 1980 and the decade it introduces, we are confident of our ability to build on our strengths to meet the challenges of the Eighties.



President and
Chief Executive Officer







people make the difference

Today's managers need worry-free results, not a trial and error education in computer technology.

CSG people understand this need and are devoted to this fundamental aim. With expertise in large and small scale computing, in networked and stand-alone systems, in commercial and scientific applications design and implementation, they focused their specialized skills on delivering the tools management needed to maximize their organization's information resource.

When a leading television network decided to develop a sophisticated computer system to collect, analyze and display election results, it selected CSG to deliver, proven, reliable computing capabilities. Ten man-months were devoted to the identification of systems needs and CSG's team of professionals coordinated the extensive teleprocessing network that linked more than 100 terminals across the country to the Mississauga Data Centre. The pay-off from this meticulous preparation was apparent to millions of TV viewers: the system worked flawlessly in both federal and provincial elections, enabling the network to accurately predict the outcome of the elections by as much as 26 minutes before its competitors.

When a major financial institution identified the need to move to a larger processing environment, it turned to CSG to

help it meet its information needs for the years ahead. Working against a tight deadline, a project team converted more than 50 key business systems – involving some 2,100 programs – in little more than 17 weeks. The massive conversion effort is now paying dividends; enabling the client to "concentrate resources on the development of new services, without the encumbrances of having to keep pace with rapidly changing technology."

The complexities of determining stress and loading factors in the design of Toronto's new Massey Hall led a consulting engineering firm to tap the extensive scientific and engineering expertise of Multiple Access (MA). MA has on staff the author of STRESS 3.0, an internationally recognized structural engineering system. Even though the engineering firm had its own computer installation and its own version of STRESS, it chose MA's STRESS to handle the structural intricacies of Massey Hall's design.

The Comserve Division was selected by a large municipal utility to develop a realtime mini computer system to monitor and control the distribution of electrical power. Known as SCADA, the system became the model for all hydro electric supervisory control systems in Canada. Comserve was chosen for this task because of its proficiency in industrial control software and systems.

Teachers helping teachers – this is why a large Montreal secondary school was one of more than 300 schools and school boards which used Compumatk for help in efficiently managing educational resources. Compumatk's computer-generated school scheduling and administrative services were developed and implemented by former teachers and administrators to meet the needs of contemporary educators.

Clients looked to CSG for computing solutions to fill a variety of needs. But the reasons they selected CSG were fundamentally the same: CSG people make the difference.





accelerate the search for a commercially viable means of tapping Canada's heavy oil reserves.

The unique online, time-sharing services of Keydata Canada were the answer to the computing needs of a major

addressing client needs with service and technology

CSG offers a wide range of Processing, Professional and Industry Services, from nine Canadian and four U.S. cities. Incorporating the latest in hardware and software technology, CSG data centres in Mississauga, Don Mills, Calgary, Montreal and Los Angeles are backed by extensive communications networks to deliver computing solutions wherever they are needed.

Quebec's massive James Bay Hydro Project required state of the art engineering capabilities. So it was natural that Multiple Access would be involved during every stage of the project. From inception through design and construction, MA put the large scale capabilities of its Control Data equipment and more than 100 structural, civil and mechanical engineering packages to work for project engineers. The largest hydro electric undertaking in the world involved virtually every consulting engineering group in Quebec. They all used MA facilities.

The challenges of extracting heavy oil from Alberta's Oil Sands led an Alberta government agency to CSG. The agency, which has the responsibility for developing new technology for heavy oil recovery, needed a specially-designed data base system to organize and manage the large volumes of data generated by various research pilot projects underway in the province. Utilizing the latest technology, CSG developed and will maintain a uniquely structured data base system that will help the agency

national distributor of electronic products. The distributor suddenly found itself doubling in size following a re-organization by its parent firm. It needed a complete distribution accounting system installed in 60 days to handle new product lines. Keydata Canada met the deadline with a simple, cost-effective and comprehensive solution specifically designed for manufacturers, importers and distributors.

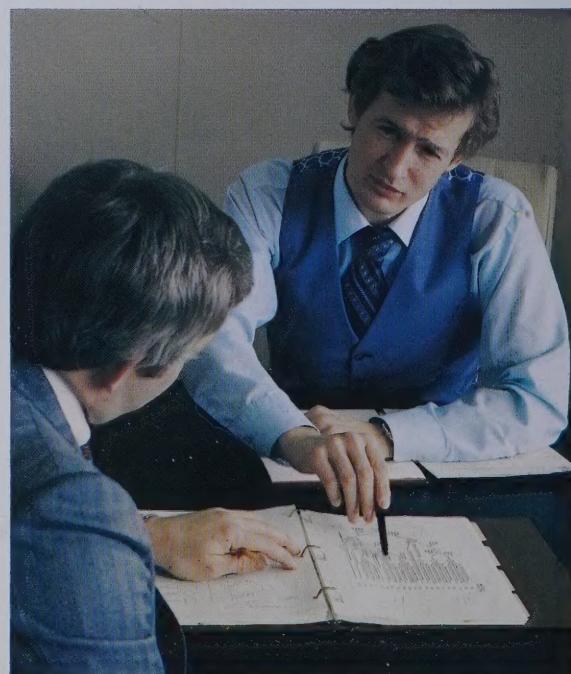
When a large taxi company conceived the idea of automating its dispatch operations, it turned to Digital Methods, a subsidiary in Ottawa, to transform the idea into reality. Drawing on extensive experience in developing "high technology" mini computer applications, Digital Methods developed a computer dispatch system that is revolutionizing taxi operations. The client has called the system "the first major innovation in the taxi industry since the introduction of two-way radio 30 years ago."

Specialized solutions was also the reason a major New York trust company turned to Multiple Financial Services (MFS) to meet its requirements for handling corporate

debt security processing. MFS implemented a system for the client, using its highly successful Term Note Processing Software and terminals linked to CSG. Term Note Processing is just one of the many value-added industry services MFS provides to the banking, brokerage and investment communities.

A national manufacturer and wholesaler of paper products needed a responsive system that could accommodate substantial planned growth, and still meet the local requirements of its diverse multi-locations. The solution was a distributed system using CSG-developed communications and operating software to handle batch and online applications on a CSG-configured mini computer.

Whatever the needs - whether for micro, mini or maxi capabilities, for centralized or distributed environments; whether for generalized or custom developed solutions; interactive or batch access, data base, data communications, or online capabilities - CSG used its technical and people resources to deliver comprehensive and effective solutions.





In the years ahead, as the demand for systems-solutions intensifies, and as the range of options becomes more complex, the demand for these skills will become more acute.

preparing for the future

The role of the computer services organization is changing. No longer the exclusive domain of the highly skilled user, today's service organizations are re-discovering – and being discovered by – the end user.

Technology itself is responsible for much of this change. Advances in hardware price-performance are bringing computer solutions to a growing number of organizations. So too are continued pressures on profit margins. High inflation, an uncertain economy and the subsequent need for improved productivity have created a demand for information, especially in the areas of planning and decision-making, that has never been greater.

CSG is committed to meeting this need. Backed by extensive people and technical resources, the company brings the benefits of today's sophisticated computer systems to organizations who don't have, or don't want to acquire, the in-house capabilities required. CSG provides a total service, translating high technology into useful and useable systems-solutions for clients.

People are the very heart of this service. Today's equipment, although less expensive, is still difficult to utilize. It takes people with skills in systems design, programming and implementation to deliver meaningful end results.

Increasingly, the expertise of the service organization will be called upon to deliver "human engineered", more directly accessible services, tailored to the end user.

Mindful of this challenge, CSG has committed ever-increasing resources to the development of the people who will be needed in the decade ahead.

One of the dominant trends which commenced in the 70's is the growing movement of technology to the end user in the form of distributed processing. This trend grew out of two seemingly contradictory, but in fact complementary forces: the movement towards decentralization to put processing capabilities at the local level and the movement towards centralized control to meet reporting requirements for up-to-the-minute decision making.

Distributed processing represents the convergence of three contemporary computer technologies: data base, micro/minicomputer.

processors and data communications. CSG has intensified its commitment to the development and implementation of these technologies to provide customers with the best in distributed processing capabilities.

The company's investment of 11 man-years in the implementation of a major communications architecture, the creation of a mini computer development laboratory and a number of research activities in distributed processing were only the latest in a series of investments in this field that date back to the installation of the Teleprocessing Control Centre, five years ago.

With these, as with all the new tools technology makes available, CSG is committed to delivering the value-added services and the systems-solutions needed in the 80's.



The future – as represented by education, energy and technology.

Two glass fibres carry as much information on laser light waves as a three inch cable.



financial highlights

The financial year ended December 31, 1979 produced continued improvement in CSG's overall financial position. Reflecting the acquisition of Multiple

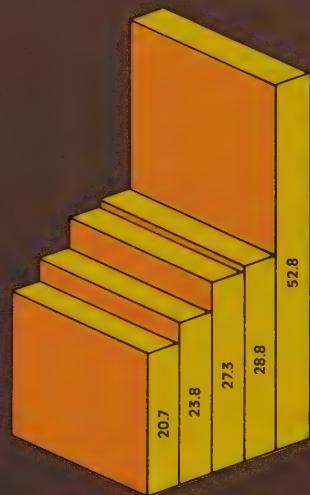
Access, total consolidated sales increased by 84% to \$52,824,000 and net income by 26% to \$1,250,000, which represented a 24% after-tax return on shareholders investment compared to 19% in 1978. Working capital generated from Operations increased 121% to \$6,865,000 enabling the company to continue its growth-oriented acquisition and capital expansion policy. Sales per employee grew for the ninth successive year, reflecting the skill and dedication of CSG employees.

During the year, the financial strength of the balance sheet increased as our current ratio improved to 1.07:1 from .62:1 in 1978. As a result of the increased net income earned the company is in a positive retained earnings position.

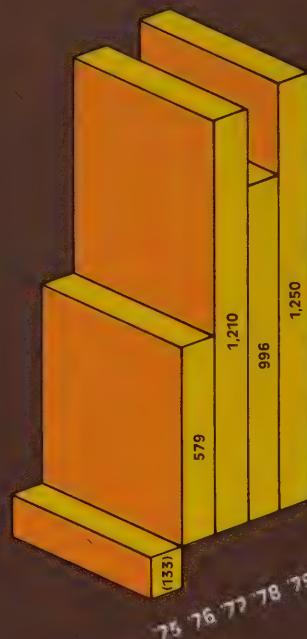
In May of 1979, CSG acquired AGT Data Systems Limited, more commonly known as the Multiple Access Computer Group, at a cost of \$7,300,000. The 1979 consolidated financial results include only seven months of AGT operation.



SALES
(\$ MILLIONS)



AFTER-TAX EARNINGS*
(\$ THOUSANDS)



*restated for 1979 prior period adjustment.

A new subsidiary, CSG Corporation, was incorporated to operate in Washington, D.C. The company had a successful first year and contributed modestly to consolidated net income.

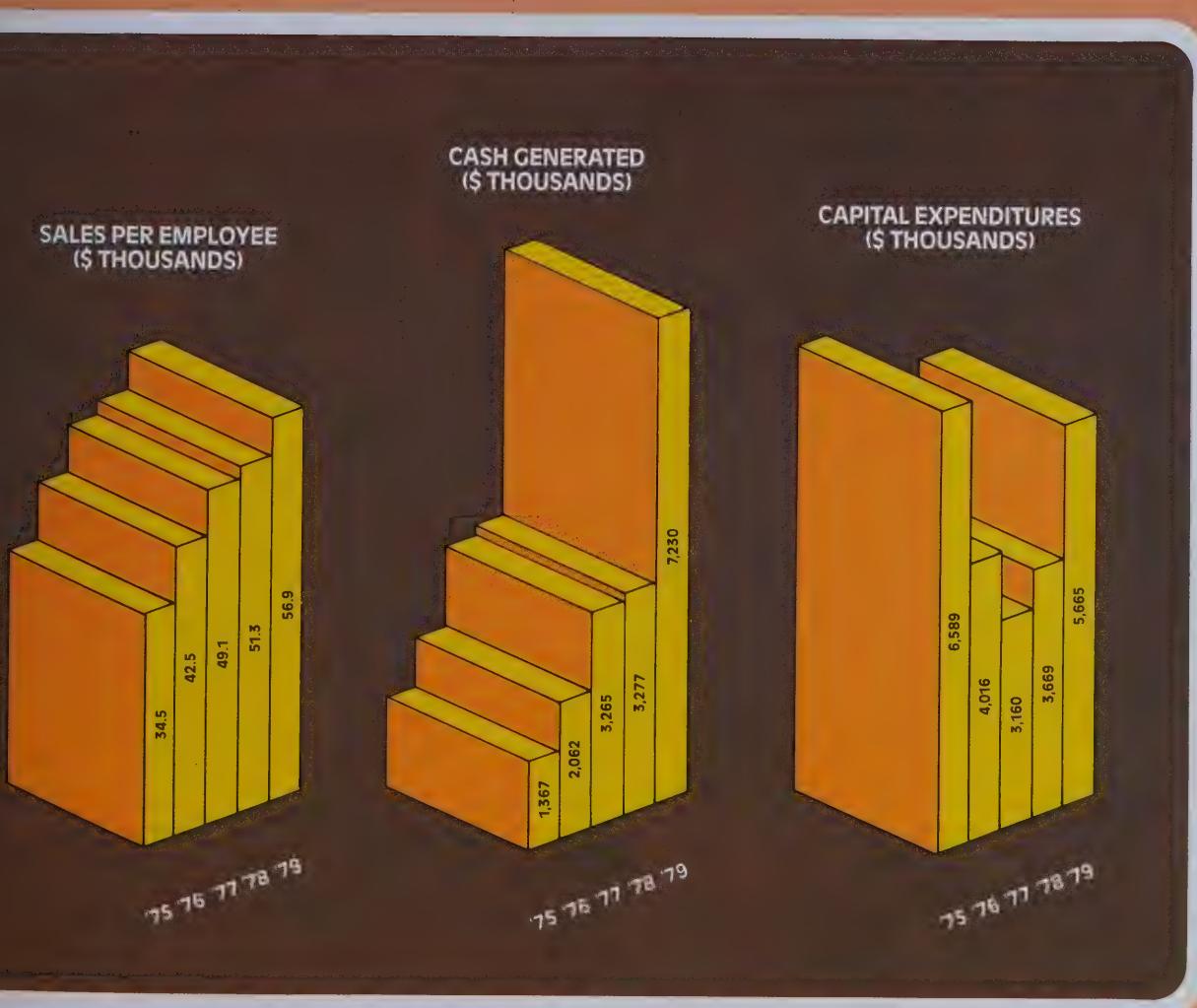
Digital Methods again had a successful year, contributing to both consolidated revenue and profits.

A subsidiary, Eric Moss & Associates, was reorganized and effective December 31, 1979 was amalgamated with Canada Systems Group.

A recommended change in accounting policy, from the Canadian Institute of Chartered Accountants, relating to accounting for capital leases was adopted on a retroactive basis.

Capital additions for new technology and the upgrading of equipment exceeded \$3,700,000, while equipment under operating leases furnished the balance of the company's requirements.

In summary, 1979 was a year of significant change for CSG; the acquisition of AGT almost doubled the size of the company. The cost and the impact of this acquisition were successfully absorbed while after-tax profit increased by 26% over 1978. The increased income and improvement in revenues for the year reflect the financial strength of the company, the quality of its operating assets and the dedication of the employees.



CANADA SYSTEMS GROUP LIMITED
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1979

ASSETS	1979	1978
CURRENT ASSETS		
Cash	\$ 181,012	\$ 5,087,140
Accounts receivable	15,445,486	
Income taxes recoverable	49,804	
Inventory	1,209,837	694,716
Prepaid expenses	981,578	292,514
	17,867,717	6,074,370
FIXED ASSETS (note 4)	13,244,251	11,239,381
EQUIPMENT UNDER CAPITAL LEASES (note 5)	7,384,762	8,011,764
OTHER ASSETS		
Deferred charges	1,947,770	866,047
Goodwill	2,678,678	1,124,877
	4,626,448	1,990,924
	\$43,123,178	\$27,316,439
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 7)	\$ 6,283,393	\$ 3,698,309
Accounts payable and accrued liabilities	6,743,431	2,241,401
Income taxes payable (note 11)		107,145
Royalty payable	405,000	365,000
Current portion of long-term debt	1,324,146	967,710
Current portion of capital lease obligations	2,009,680	2,332,628
	16,765,650	9,712,193
LONG-TERM DEBT (note 8)	14,508,836	7,189,622
CAPITAL LEASE OBLIGATIONS (note 9)	5,053,368	5,848,584
DEFERRED INCOME TAXES	1,253,857	389,504
MINORITY INTEREST IN SUBSIDIARY	140,250	25,257
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 10)		
Issued		
2,250 Preferred shares	2,250,000	2,250,000
4,500 Common shares	3,002,000	3,002,000
	5,252,000	5,252,000
RETAINED EARNINGS (DEFICIT)	149,217	(1,100,721)
	5,401,217	4,151,279
	\$43,123,178	\$27,316,439

On behalf of the Board:

Director

E. Walker

Director

M. Rogers

CANADA SYSTEMS GROUP LIMITED
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1979

	1979	1978
REVENUE		
Information systems –		
Processing	6,957,664	4,925,292
Systems design and programming	52,823,387	28,760,995
	\$45,865,723	\$23,835,703
DIRECT COSTS (note 6)	32,042,636	17,468,997
	20,780,751	11,291,998
OTHER EXPENSES		
Administration (note 6)	8,039,639	3,965,848
Marketing	7,139,211	3,490,875
Royalties	280,000	225,739
Goodwill amortization	233,747	40,272
Interest –		
Bank indebtedness	550,556	273,643
Long-term debt	2,365,778	1,659,140
	18,608,931	9,655,517
INCOME BEFORE UNDERNOTED ITEMS	2,171,820	1,636,481
Income taxes (note 11)	1,257,500	808,160
Minority interest	914,320	828,321
	29,382	3,607
INCOME BEFORE EXTRAORDINARY ITEM	884,938	824,714
EXTRAORDINARY ITEM		
Recovery of income taxes on the application of prior years' losses	365,000	171,197
NET INCOME FOR THE YEAR	1,249,938	995,911
DEFICIT, BEGINNING OF YEAR AS RESTATED (note 3)	(1,100,721)	(2,096,632)
RETAINED EARNINGS (DEFICIT), END OF YEAR	\$ 149,217	\$(1,100,721)

(See accompanying notes)

CANADA SYSTEMS GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1979

	1979	1978
WORKING CAPITAL PROVIDED FROM Operations		
Recovery of income taxes on application of prior years' losses	\$ 365,000	171,197
Additions to long-term debt	8,186,966	1,665,352
Additions to capital lease obligations	<u>1,166,992</u>	<u>4,942,238</u>
	16,584,078	
WORKING CAPITAL APPLIED TO		
Purchase of fixed assets	2,411,706	2,003,321
Acquisition of shares of subsidiaries, including working capital of \$3,030,475 (deficiency of \$190,359 in 1978)	<u>4,361,351</u>	918,118
Additions to equipment under capital leases	1,315,039	1,665,352
Additions to deferred charges	652,730	182,761
Reduction in long-term debt	1,141,154	754,318
Reduction in capital lease obligations	1,962,208	389,171
Repayment of debt to former shareholders of acquired subsidiary	<u>11,844,188</u>	<u>246,000</u>
	4,739,890	(1,216,803)
	(3,637,823)	(2,421,020)
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 1,102,067	\$(3,637,823)
WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR		
WORKING CAPITAL (DEFICIENCY), END OF YEAR		

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of
Canada Systems Group Limited:

We have examined the consolidated balance sheet of Canada Systems Group Limited as at December 31, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Canada Systems Group Limited and the subsidiary company of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the consolidated financial statements of the subsidiary, ACT Data Systems Limited.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting for capital leases as set out in note 3 to the financial statements.

Clarkson Gordon

Chartered Accountants

DIRECTORS

Clarke M. Beattie
Vice-President & Secretary
The T. Eaton Company Limited
William B. Boggs
President & Chief Executive Officer
Canada Systems Group Limited
Walter H. Burkhisier
Vice-President & Treasurer
Gulf Canada Limited
Wilfred C. Chick
Vice-President, Finance
The Steel Company of Canada Limited
Robert E. Heneault
Vice-President, Administration
The Steel Company of Canada Limited
Morgan D. Payne
Senior Vice-President Finance & Administration
The T. Eaton Company Limited
Elbert E. Walker
Vice-President Corporate Planning
Gulf Canada Limited

CORPORATE HEADQUARTERS

2599 Speakman Drive
Mississauga, Ontario
L5K 1B1
(416) 822-5200

SOLICITORS

3 McCarthy & McCarthy

BANKERS

4 The Bank of Montreal
The Toronto-Dominion Bank

AUDITORS

5 Clarkson Gordon

OFFICERS

Elbert E. Walker
Chairman of the Board of Directors
William B. Boggs
President & Chief Executive Officer
William W. Beairsto
Vice-President Corporate Development
John C. Bright
Vice-President Data Processing Services
David Herd
Vice-President Finance & Administration
Secretary-Treasurer
Harry G. Porteous
Vice-President Business Systems
Herbert E. Hilgenberg
Controller & Assistant Secretary
Charles J. Kasner
Manager Financial Services
Assistant Treasurer

BRANCH LOCATIONS

Montreal	Edmonton
Ottawa	Vancouver
Toronto	Washington
Don Mills	Princeton
Mississauga	Los Angeles
Winnipeg	San Francisco
Calgary	



CANADA SYSTEMS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1979

1. ACCOUNTING POLICIES

The consolidated financial statements of the company have been prepared by management in accordance with generally accepted accounting principles which have been consistently applied after giving retroactive effect to the change in accounting for capital leases as set out in note 3. In management's opinion, the financial statements have been prepared within the limits of materiality and within the framework of the accounting policies summarized below:

(a) Principles of consolidation

The financial statements include the accounts of Canada Systems Group Limited and its subsidiaries: ACT Data Systems Limited, Compumatik Inc., CSC Corporation Inc., Digital Methods Limited, and Eric Moss & Associates Limited.

(b) Fixed assets

All fixed assets are valued at cost and depreciated over their useful lives on a straight-line basis as follows: building - 3.3%; auxiliary power supply - 6.7 to 10.0%; furniture and fixtures - 10.0 to 20.0%; computer equipment - 16.7 to 20.0%; leasehold improvements - over term of lease.

(c) Equipment under capital leases

Computer equipment under certain leases is capitalized at the present value of its net minimum lease payments and is depreciated on a straight-line basis ranging from five to ten years depending on the useful life of the equipment.

(d) Inventory

Inventory, consisting primarily of contracts-in-process, is valued using the percentage of completion method and accordingly, represents the net realizable value of accumulated costs less billings to date.

(e) Deferred charges

Deferred charges, consisting principally of the cost of magnetic tapes, disks and software, are amortized on a straight-line basis over various periods not exceeding five years.

(f) Goodwill

Goodwill represents the excess of the cost of shares of subsidiaries over the fair value of their net assets at dates of acquisition and is amortized on a straight-line basis over a ten year period.

(g) Deferred income taxes

The company follows the tax allocation basis of accounting. On this basis, the effect on income taxes of timing differences between income as reported in the financial statements and income for tax purposes is reflected as deferred income taxes.

2. ACQUISITION OF SUBSIDIARY COMPANIES

Under the terms of a cash offer and accompanying Bid Circular dated May 30, 1979, the company acquired all of the issued and outstanding shares of ACT Data Systems Limited for \$7,362,859.

In addition, during April, 1979 the company acquired a further 6.3% interest in Digital Methods Limited for \$28,968 cash to bring its total shareholding to 100% in that company.

The purchase price of the acquisitions has been assigned to the net assets acquired as follows: total assets acquired excluding goodwill - \$12,663,301, total liabilities assumed - \$7,059,022 and goodwill - \$1,787,548.

The company has accounted for all acquisitions by the purchase method and has reflected in net income its share of each subsidiary's net income from the date of acquisition.

3. CHANGE IN ACCOUNTING FOR CAPITAL LEASES

In 1979, the company changed its accounting for leases and capitalized computer equipment if the lease met certain criteria whereby substantially all of the benefits and risks incidental to the ownership of the property were transferred to the company. This change in accounting has been given retroactive treatment and accordingly, the financial statements for the prior years have been restated. As a result, the net income for 1979 and 1978 increased by \$231,878 and \$151,897 respectively and the deficit at January 1, 1978 increased by \$240,196.

4. FIXED ASSETS

	1979			1978
	Cost	Accumulated depreciation	Net	
Land	\$ 506,758		\$ 506,758	\$ 506,758
Building	5,642,663	1,452,836	4,189,827	4,254,852
Auxiliary power supply	800,400	374,286	426,114	427,978
Furniture and fixtures	1,978,093	976,417	1,001,676	610,207
Computer equipment	10,280,414	3,664,879	6,615,535	5,403,820
Leasehold improvements	627,824	123,483	504,341	35,766
	\$19,836,152	\$6,591,901	\$13,244,251	\$11,239,381

5. EQUIPMENT UNDER CAPITAL LEASES

	1979			1978
	Cost (note 1(c))	Accumulated depreciation	Net	
Computer equipment	\$15,704,922	\$8,320,160	\$7,384,762	Net
				\$8,011,764

6. DEPRECIATION AND AMORTIZATION

Depreciation and amortization of fixed assets, including equipment under capital leases, and deferred charges have been included in the following categories on the statement of income and retained earnings:

	1979	1978
Fixed Assets		
Direct costs	\$3,803,015	\$2,845,234
Administration	463,389	331,006
Deferred charges		
Direct costs	679,330	477,715
	\$4,945,734	\$3,653,955

7. BANK INDEBTEDNESS

Bank indebtedness includes demand loans of \$6,184,360 secured by a general assignment of book debts.

8. LONG-TERM DEBT

	1979	1978
9% first mortgage, due October 21, 1996, payable \$57,260 monthly, blended principal and interest	\$ 3,918,740	\$4,014,945
Bank loans, bearing interest at 1% above bank prime rate, payable in four annual instalments	3,126,041	3,907,552
Bank loans, bearing interest at 1% above bank prime rate, payable in five annual instalments commencing in 1981	7,353,000	
Bank loan (\$408,000 U.S.), bearing interest at 2% above U.S. bank prime rate, payable in three annual instalments commencing in 1980	477,500	
Due to former shareholders of subsidiaries, non-interest bearing	133,334	216,009
Conditional sales contracts, bearing interest at various rates payable in monthly instalments over four years	824,367	18,826
	15,832,982	8,157,332
Less current portion	1,324,146	967,710
Long-term portion	\$14,508,836	\$7,189,622

The bank loans, other than the \$408,000 U.S. bank loan which is secured by the guarantee of a subsidiary company, are secured by a general assignment of book debts of the company and its subsidiary, AGT Data Systems Limited, and the shares of that subsidiary. The bank loans of \$3,126,041 are also secured by chattel mortgages on certain computer equipment.

Principal repayments due on long-term debt within each of the next five years are as follows:
1980 – \$1,324,146; 1981 – \$2,647,806; 1982 – \$2,762,298; 1983 – \$2,486,960; 1984 – \$1,674,428.

9. CAPITAL LEASE OBLIGATIONS

The future minimum payments under capitalized leases are as follows:

1980	\$2,649,050
1981	2,286,849
1982	2,286,849
1983	1,153,838
1984 and subsequent years	202,350
	8,578,936
Less amount representing interest	1,515,888
Capitalized lease obligations	7,063,048
Less current portion	2,009,680
Long-term portion	\$5,053,368

10. INCORPORATION AND CAPITAL STOCK

The company has been continued under the Canada Business Corporations Act. The authorized capital of the company consists of 3,000 voting preferred shares without par value, each entitled to a non-cumulative dividend of \$75 per annum and redeemable at \$1,000, and an unlimited number of common shares without par value.

11. INCOME TAXES

Income taxes provided in the statement of income and retained earnings of \$1,257,500 (1978 – \$808,160) include current income taxes of \$73,245 (1978 – \$219,864) and deferred income taxes of \$1,184,255 (1978 – \$588,296).

Two of the company's wholly-owned U.S. subsidiaries have losses for income tax purposes totalling \$1,609,000 U.S. which are available to offset future taxable incomes and expire during the following years: 1983 – \$107,000; 1984 – \$724,000; 1985 – \$522,000; 1986 – \$44,000; 1987 – \$212,000.

In addition, the fixed asset value for income tax purposes in one of the Canadian subsidiaries exceeds the book value for accounting purposes by \$614,000.

12. PENSION PLAN

The company has a pension plan covering substantially all of its employees. Under the plan, the company is required to pay the difference between the present value of the pension benefits and the members' required contributions. In 1979, after the recognition of a surplus of \$532,000 based on an actuarial valuation of the plan as at January 1, 1979, the total pension costs amounted to \$14,000 (1978 – \$410,000). The company currently has no liability for past service costs.

13. COMMITMENTS

(a) Under the terms of a Technical Assistance Agreement with TRW, Inc., dated April 29, 1971 and last amended as of December 12, 1973, the company is committed to pay, in respect of "know-how assistance", a maximum aggregate amount of \$1,775,000 during the term of the agreement which expires on December 31, 1981. Of this amount \$1,346,667 has been accrued in the accounts and \$941,667 paid to December 31, 1979. The balance of \$428,333 is payable in annual instalments based on certain sales defined in the agreement, subject to a maximum payment of \$320,000 for 1980 and the balance then remaining being payable on or before June 30, 1982.

(b) The company presently leases certain of its computer equipment and office premises under operating lease contracts which require minimum annual rental payments for each of the next five years as follows: 1980 – \$4,475,000; 1981 – \$3,266,000; 1982 – \$3,190,000; 1983 – \$3,122,000; 1984 – \$3,124,000.

14. SUBSEQUENT EVENT

Subsequent to year-end, a writ was issued by a customer against the company alleging damages arising from an agreement, entered into in prior years, for the development of an information processing system. Provision has not been made in the financial statements for the amounts claimed, although substantial, as management believes the allegations are not valid.

15. COMPARATIVE FINANCIAL STATEMENTS

Certain figures on the 1978 comparative financial statements have been reclassified to conform with the presentation adopted in 1979. These reclassifications did not result in a change in the net income for 1978 as previously reported, except for the accounting change for capital leases as set out in note 3.

